

In the Matter of	)	No. G 98 -9
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>PHYSICIANS INSURANCE EXCHANGE,</b>	)	AND ORDER ADOPTING REPORT
	)	OF EXAMINATION
A Reciprocal Insurer.		

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## BACKGROUND

An examination of the financial condition of **PHYSICIANS INSURANCE EXCHANGE** (the Company) as of December 31, 1995, was conducted by examiners of the Washington state Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a reciprocal insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions and comments and recommendations was transmitted to the Company for its comments on September 29, 1997.

The Commissioner or a designee has considered the report, the relevant portions of the examiner's work papers, and submissions by the Company. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

## FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 3 through 17 of the report.

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **PHYSICIANS INSURANCE EXCHANGE** and to order the company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The instructions in the report are appropriate responses to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, this being the Instructions and Comments and Recommendations contained in the examination report on pages 2 and 3:

1. The Company is instructed to take all actions necessary to assure compliance with the conflict of interest provisions of RCW 48.07.130(1) regarding its investments, as noted in the Instruction of the examination report. The Commissioner acknowledges without comment on adoption the Company's response to this issue.
2. It is recommended that the Company formally document its System Development Life Methodology, as noted in Comment and Recommendation (1) of the examination report.
3. It is recommended that the Company develop, adopt, and follow an accounting procedure or policy manual, as noted in Comment and Recommendation (2) of the examination report.
4. It is recommended that the Company update its tax allocation agreements with its affiliates, as noted in Comment and Recommendation (3) of the examination report.
5. It is recommended that the Company revise its custodial agreements with U.S. Bank of Washington and Scudder, Stevens & Clark to provide indemnification for loss of securities as required by the NAIC, as noted in Comment and Recommendation (4) of the examination report.
6. It is recommended that the Company update the stock certificate of Association Insurance Services, Inc. to reflect Physicians Insurance Exchange as the owner of twenty thousand shares, as required by RCW 48.12.010, as noted in Comment and Recommendation (5) of the examination report.
7. It is recommended that the Company accurately reflect in its annual statement the

ownership of 20,000 shares of Association Insurance Services, Inc., as noted in Comment and Recommendation (5) of the examination report.

8. It is recommended that the Company accurately reflect in its annual statement the ownership of 300,000 shares of PHYSIS Corporation, as noted in Comment and Recommendation (5) of the examination report.

ENTERED at Lacey, Washington, this 29th day of January, 1998.

DEBORAH SENN  
Insurance Commissioner

By:

JAMES T. ODIORNE, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division